

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 INRE-00 NSCE-00 USIE-00
AID-05 CIAE-00 COME-00 EB-08 FRB-03 INR-10
NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-07 CEA-01 DOE-11 SOE-02
DOEE-00 DODE-00 /088 W
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O R 171521Z FEB 78
FM AMEMBASSY HELSINKI
TO SECSTATE WASHDC IMMEDIATE 2404
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 0535

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E.O. 11652: GDS
TAGS: ECON, EFIN, ELAB, PINT, FI
SUBJECT: FINLAND DEVALUES; GOVT DIVIDES AND RESIGNS, BUT WILL
PROBABLY BE RECONSTITUTED MARCH 1

REF: HELSINKI 0506, COOPER-SCHALLER TELCON

1. SUMMARY. THE FINNISH GOVERNMENT FEBRUARY 16 APPROVED
THE BANK OF FINLAND'S RECOMMENDATION FOR AN EIGHT PERCENT
DEVALUATION. FINNISH BANKS RESUMED FOREIGN EXCHANGE
OPERATIONS ON FEBRUARY 17. THE CABINET VOTE ON THE ISSUE
WAS EIGHT TO FOUR WITH THREE MINISTERS ABSENT. BECAUSE
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OF TACTICAL POLITICAL CONSIDERATIONS, SOCIAL DEMOCRATIC
(SDP) MINISTERS, INCLUDING PRIME MINISTER SORSA, VOTED
AGAINST DEVALUATION OR WERE ABSENT. PRESIDENT KEKKONEN
HAS ASKED SORSA TO FORM A NEW GOVERNMENT TO TAKE OFFICE
MARCH 1. UNTIL THEN, THE PRESENT SORSA GOVERNMENT WILL
CONTINUE ON A CARETAKER BASIS. THE NEW GOVERNMENT IS
EXPECTED TO BE COMPRISED OF THE SAME FIVE PARTIES AS

THE CURRENT ONE. END SUMMARY.

2. THE CABINET DECISION (DISCUSSED BELOW) ENDED AN EXCEPTIONALLY DIFFICULT DEVALUATION PROCESS OF ALMOST A WEEK, A DELAY WHICH RAISED A BASIC QUESTION CONCERNING THE RELATIONSHIP BETWEEN MONETARY AND EXCHANGE RATE POLICY AND DOMESTIC POLITICS. THE BANK OF FINLAND ANNOUNCED FEBRUARY 16 THAT THE DEVALUATION AMOUNTS TO EIGHT PERCENT. FINNISH BANKS RESUMED FOREIGN EXCHANGE TRANSACTIONS AT NOON FEBRUARY 17. IN INITIAL TRADING THE DEPRECIATION OF THE FINNMARK WAS EIGHT PERCENT AGAINST THE DEUTCHMARK (2.05 FMK EQUALS 1.00 DMK) BUT ONLY ABOUT SIX PERCENT AGAINST THE DOLLAR (4.192) AND AGAINST THE SWEDISH KRONER (0.912).

3. INDUSTRY AND BUSINESS SPOKESMEN EXPRESSED SATISFACTION WITH THE AMOUNT OF THE DEVALUATION, ACKNOWLEDGING THAT IT WAS THE MOST THAT COULD BE EXPECTED UNDER THE CIRCUMSTANCES. HOWEVER, THEY STRESSED THE NEED FOR ADDITIONAL MEASURES TO IMPROVE FINNISH COMPETITIVENESS AND WARNED AGAINST DISSIPATING THE EFFECTS OF DEVALUATION THROUGH WAGE INCREASES. IT IS CLEAR, NEVERTHELESS, THAT LABOR WILL INSIST ON A REVIEW OF WAGE CONTRACTS IN THE LIGHT OF THE NEW DEVALUATION.

4. THE MOST UNUSUAL ASPECT OF THE POLITICAL DECISION WAS CONFIDENTIAL

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THE TACTICAL FLIP-FLOP OF PRIME MINISTER SORSA AND THE SDP. AFTER FAILING IN HIS EFFORTS TO GET SKDL (COMMUNIST -FRONT) MINISTERS TO GO ALONG WITH A SMALL DEVALUATION AS PART OF A BROADER ECONOMIC PACKAGE, SORSA PUT TO A CABINET VOTE THE BANK OF FINLAND'S RECOMMENDATION FOR AN EIGHT PERCENT DEVALUATION. THE CABINET THEREUPON APPROVED THE DEVALUATION BY A MARGIN OF EIGHT VOTES TO FOUR WITH THREE MINISTERS ABSENT. THE VOTE WAS HIGHLY UNUSUAL IN THAT THE PRIME MINISTER HIMSELF VOTED AGAINST THE DEVALUATION ALONG WITH ONE SDP COLLEAGUE (THE MINISTER OF FINANCE) AND TWO SKDL MINISTERS. OF THE ABSENT MINISTERS, TWO WERE FROM SDP AND ONE FROM SKDL. THE EIGHT VOTES IN FAVOR OF DEVALUATION CAME FROM THE SEVEN MINISTERS OF THE CENTRIST PARTIES AND THE CABINET'S ONE INDEPENDENT. THUS, THE PRIME MINISTER AND HIS SDP COLLEAGUES ENDED UP IN EFFECT OPPOSING A MEASURE THEY HAD SEPT ALL WEEK TRYING TO GET APPROVED.

5. THE REASONS FOR THE SDP BEHAVIOR WERE TACTICAL. WITH SKDL INSISTING ON VOTING AGAINST DEVALUATION, SDP HAD TO FIND A WAY TO PROTECT ITS POLITICAL POSITION VIS-A-VIS THE SKDL WHILE AT

THE SAME TIME ASSURING CABINET APPROVAL OF THE
DEVALUATION. THE SDP ACCOMPLISHED BOTH ENDS BY
VOTING WITH SKDL AGAINST THE DEVALUATION (OR ABSTAINING)
AND LETTING THE CENTRIST MINISTERS ACCEPT RESPONSIBILITY.

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6. IN THE PROCESS THE GOVERNMENT HAD TO RESIGN, SINCE
SORSA HAD SAID THAT IF HIS GOVERNMENT FAILED TO
REACH AGREEMENT ON AN IMPORTANT ISSUE IT WOULD
RESIGN. HOWEVER, ITS RESIGNATION IS OF LITTLE
SIGNIFICANCE BECAUSE IT WOULD HAVE HAD TO RESIGN IN
ANY CASE ON OR BEFORE MARCH 1, THE DAY THE NEW
PRESIDENTIAL TERM BEGINS. MOREOVER, THE PRESIDENT
HAD ALREADY ASKED SORSA TO BEGIN NEGOTIATIONS TO
FORM A NEW GOVERNMENT TO TAKE OFFICE AT THE BEGINNING
OF THE NEW TERM. THE PRESIDENT INDICATED HIS
PREFERENCE THAT THE NEW GOVERNMENT BE FORMED BY THE

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SAME PARTIES THAT COMPRISE THE CURRENT ONE.

7. SORSA SAID HE WILL BEGIN NEGOTIATIONS CONCERNING THE FORMATION OF A NEW GOVERNMENT AFTER THIS RETURN FEBRUARY 20 FROM THE NORDIC COUNCIL MEETINGS IN OSLO. HE INDICATED FEBRUARY 17 HE BELIEVES IT WILL BE POSSIBLE TO FORM A NEW GOVERNMENT COMPOSED OF THE SAME PARTIES AS THE PRESENT COALITION. APPARENTLY, THE WEEK OFFERED SOMETHING FOR EVERYONE: THE SKDL VOTES AGAINST DEVALUATION BUT WILL NOT HAVE TO GO INTO OPPOSITION AND JEOPARDIZE ITS POSITION WITH ITS MINORITY WING. THE SDP PROTECTS ITS LEFT FLANK FROM THE SKDL AND ITS LEADER IS INVITED TO FORM A GOVERNMENT THAT WILL INCLUDE BOTH LEFTIST PARTIES. THE CENTRIST PARTIES WILLINGLY ACCEPT RESPONSIBILITY FOR A DEVALUATION WHICH THEY HAVE ADVOCATED AND ARE ALSO ASSURED OF PARTICIPATION IN THE NEXT GOVERNMENT. LAST BUT MOST IMPORTANT, THE FINNISH ECONOMY GETS A DEVALUATION WHICH INDUSTRY AND BANKING CIRCLES HAVE DEMANDED.

8. COMMENT. THE EMBASSY DOUBTS THAT THE UNUSUAL DEVELOPMENTS OF THE PAST WEEK WILL IN FACT LEAVE EVERYONE HAPPY. SEVERAL QUESTIONS REMAIN TO BE ANSWERED, NOT THE LEAST OF WHICH IS: WHAT DOES THE FINNISH PUBLIC MAKE OF SUCH POLITICAL MANEUVERS? IT WILL TAKE SOME TIME FOR OBSERVERS TO SORT OUT THE POLITICAL RAMIFICATIONS AND ECONOMIC SIGNIFICANCE OF THE DEVALUATION AND THE DECISION PROCESS THAT PRODUCED IT.
RIDGWAY

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